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World Economic and Social Survey 2014: Reducing Inequality for Sustainable Development

Overview

Summary

The 2014 *World Economic and Social Survey* notes that inequality within countries has increased markedly in recent decades. The majority of the world's population lives in countries where inequality in 2010 was higher than it was in 1980. The standardized and updated indicators used in this *Survey* show that inequality in Asia has increased and has reached levels similar to those in Latin America, so far the region with the highest inequality in the world. Countries in Europe (including the Russian Federation and Eastern European economies in transition) experienced a sharp increase in inequality during the 1990s, whereas countries in Northern America and Oceania have experienced a marked increase in inequality since the 1980s.

On the positive side, there are two regions where within-country inequality has decreased, namely, Latin America and Africa, although considerable uncertainty about inequality trends in Africa remains owing to poor data. Overall, however, the weight of inequality reductions in these regions has not surpassed that of the increases in the other regions.

Public policy actions by national Governments and other stakeholders can have an impact on within-country inequality in particular and hence this is an important starting point for tackling and reducing inequality. The *Survey* emphasizes that policy frameworks for reducing inequality would need to be designed and implemented in accordance with country-specific circumstances. Reducing inequality in the context of sustainable development may, inter alia, require an integrated employment framework supporting decent jobs; increased progressivity of the tax system; the taxation of negative externalities arising from unsustainable production and consumption patterns; a greater empowerment of women in managing common-property resources, as in other areas of sustainable development; and international tax cooperation involving developing countries.

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Introduction

Inequality has been discussed in the context of the formulation of the post-2015 development agenda. Pursuing greater equality and equity at the global level accords with one of the principles recognized by Member States in the United Nations Millennium Declaration.[1] The *Survey* seeks to contribute to the current debate through a discussion of current trends in the evolution of inequality and through a discussion of alternative ways to reduce inequality. It seeks to inform a discussion on *how* Governments and other stakeholders can reduce inequality, which instruments may be deployed and what historical and recent successes in reducing inequality can teach us about the scope for — and the challenges to — reducing inequalities within a wide range of countries and contexts. The *Survey* emphasizes that policy frameworks to reduce inequality would need to be designed and implemented in accordance with country-specific circumstances.

High inequalities for prolonged periods make it more difficult to sustain economic growth. Empirical studies show that countries with higher inequality are more likely to experience shorter growth spells. In both developed and developing economies, rising inequalities have also been associated with excessive debt-financed consumption and investment patterns which may have then contributed to financial and economic crises. In addition, lower levels of investment in human capital (education and health care in particular) tend to accompany high inequality, making it more difficult to sustain growth. Rising inequality also reduces the impact of economic growth on poverty reduction. Moreover, concentration of assets has been found to lead to suboptimal allocation of resources, with insufficient investment in productive sectors.

The most recent *Report on the World Social Situation* (2013), entitled *Inequality Matters*,[2] underscored that high and persistent inequality within countries represents a serious challenge to the economic, social and political stability of countries, affecting the well-being not only of those at the bottom of the income distribution, but also of those at the top. Inequality limits opportunities for social mobility, including intergenerational mobility. Furthermore, there is cumulative evidence that group (or horizontal) inequalities are associated with loss of social cohesion, fertile ground for political and civil unrest, instability and heightened human insecurity.

Inequality may hamper environmental sustainability, while environmental degradation may lead to increased inequality. Regarding climate change, for example, overwhelming evidence suggests that poorer people and poorer countries, which contribute minimally to the emissions that exacerbate global warming, will bear disproportionately large consequences, and are worse affected by climate change than their richer counterparts. In turn, as highlighted by the Intergovernmental Panel on Climate Change (IPCC), climate change is likely to impact inequality. According to IPCC: "Climate-change impacts are expected to exacerbate poverty in most developing countries and create new poverty pockets in countries with increasing inequality, in both developed and developing countries."[3]

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[1] General Assembly resolution 55/2.

[2] United Nations publication, Sales No. 13.IV.2, pp. 21-24.

[3] Intergovernmental Panel on Climate Change, "Climate change 2014: impacts, adaptation, and vulnerability — summary for policy makers" (Geneva, 2014), p. 21. Available from http://ipcc-wg2.gov/AR5/images/uploads/IPCC_WG2AR5_SPM_Approved.pdf.

In this context, the *Survey* focuses on four key areas in which policies can have a significant impact in reducing inequality: the environment, employment, redistributive policies, and global measures affecting climate change, taxation and migration. While the impact of inequality on the economic and social dimensions of sustainable development have been the subject of extensive research, the link between inequality and the environment has not received adequate attention. The *Survey* investigates the channels through which income inequality will have an impact on the environment.

The adoption of any policy framework that seeks to improve income distribution will require strong national ownership and effective and legitimate processes of representation and inclusiveness, including non-governmental stakeholders and civil society forces.

This *Survey* uses income inequality as a broad proxy for many other types of inequality, even if income is undeniably an imperfect indicator of the many dimensions of inequality that determine sustainable development. These various dimensions of inequality have been researched in depth in recent reports of the United Nations, including the United Nations Research Institute for Social Development (UNRISD), in 2010, and the United Nations Development Programme (UNDP), in 2013.[4] In particular, the *Report on the World Social Situation 2013* discusses disparities in several dimensions of well-being, including life expectancy at birth, child survival, nutrition and educational attainment. It also provides insights into rural/urban divides and the challenges facing disadvantaged and marginalized social groups. To analyse the full range of dimensions of inequality, however, is outside the purview of this *Survey*.

The *Survey* focuses on inequality within countries and provides references to the broader global context. Many of the drivers of national inequality relate to global processes, including technological developments and international flows of people, goods, services and finance, threats to environmental sustainability and climate change, among others. Any policy framework for national action will need to be underpinned by a supportive global context, with international collective actions in key domains such as trade, finance, environment and the mobility of persons.

Income inequality across the globe

Income inequality can be measured at three different levels. Within-country inequality measures report the income differentials across households in a single country; inequality between countries measures the inequalities in the per capita gross national income (GNI) between countries, without considering the distribution of income within countries; and global inequality encompasses the population of the entire world as if no borders existed and the world were a single country. Each of these three measures can be calculated using a statistical indicator such as the Gini coefficient, which captures income distribution in a single number ranging from

[4] United Nations Research Institute for Social Development, *Combating Poverty and Inequality: Structural Change, Social Policy and Politics* (United Nations publication, Sales No. E.10.III.Y.1); and United Nations Development Programme, *Humanity Divided: Confronting Inequality in Developing Countries* (New York, 2013).

zero (absolute equality) to one (complete inequality, with all income accruing to a single person or household).[5]

As the *Survey* shows, overall, within-country inequality increased starting in the mid-1980s, and stabilized in the recent decade (see figure O.1).[6] Between-country inequality, based on average per capita incomes, has been falling since 2000. Global inequality has remained stable but at a very high plateau.

More people experience rising inequality in their country

The *Survey* shows that the level of inequality within countries has increased markedly during the last decades: 73 per cent of the world's population lives in countries where inequality in 2010 was higher than it was in 1980.

The *Survey* presents evidence of sharply increasing inequality within countries during the 1990s with more recent "episodes" of reduction in inequality in some countries, particularly in Latin America. If one takes the regional average,[7] it is possible to observe a significant decline in inequality in Latin America since 2002, supported by a growing body of research that has documented the success of policies undertaken to reduce inequality in countries of that region.[8]

Countries in Asia experienced a significant increase in inequality during the 1990s and inequality remained at a high level during the recent decade. This Survey presents evidence that since 2007, within-country inequality in Asia, measured at the level of disposable income, has been as high as that in Latin America. Countries in Europe (including the Russian Federation and Eastern European economies in

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[5] For simplicity, throughout the *Survey*, the Gini will be presented in percentage points, on a scale ranging from zero (absolute equality) to one hundred (absolute inequality).

[6] The World Income Inequality Database (WIID) has been developed and maintained by the United Nations University World Institute for Development Economics Research (UNU-WIDER). It gathers Gini estimates that have been computed using more than 20 different definitions, some measuring income and others based on expenditure. Consequently, comparability of Gini coefficients across countries and over time represents an important obstacle with respect to research and analysis of inequality. The Standardized World Income Inequality Database (SWIID) seeks to address issues of data comparability across countries and over time by standardizing the Gini coefficients provided by various sources, including the World Income Inequality Database. The Standardized World Income Inequality Database provides a comparable set of standardized estimates for market and net/disposable income distribution, which are generated through a standardization routine that takes estimates from the LIS (formerly known as the Luxembourg Income Study) as a benchmark and further prioritizes more reliable data sources over less reliable ones. The Standardized World Income Inequality Database also provides standard errors for Gini estimates, which arise from the standardization process. Those standard errors can be large for countries with the least reliable data and must be taken into account (see also the technical annex to the *Survey*).

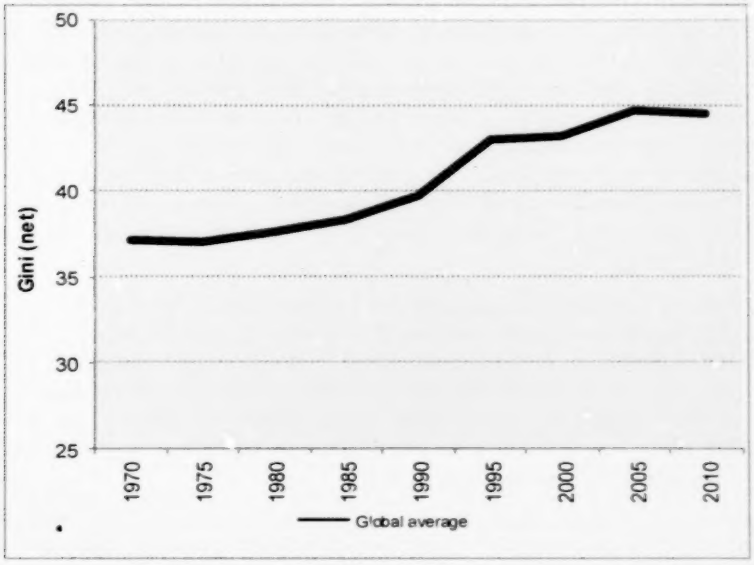
[7] Regional classifications are in accordance with United Nations standard usage.

[8] See United Nations, Economic Commission for Latin America and the Caribbean, *Compacts for Equality: Towards a Sustainable Future* (Santiago, April 2014); United Nations, Economic Commission for Latin America and the Caribbean, *Structural Change for Equality: An Integrated Approach to Development* (Santiago, July 2012); United Nations, Economic Commission for Latin America and the Caribbean, "Time for equality: closing gaps, opening trails" (Santiago, 2010); and Giovianni Andrea Cornia, ed., *Falling Inequality in Latin America: Policy Changes and Lessons, UNU-WIDER Studies in Development Economics* (Oxford, Oxford University Press, 2014).

transition) experienced a sharp increase in inequality during the 1990s, whereas countries in Northern America and Oceania have experienced a marked increase in inequality since the 1980s.

The decline in inequality reported as the average aggregate for African countries suffers from considerable uncertainty on account of poor data. Household surveys in Africa over the past 15 years have been conducted in countries covering only 75 per cent of the region's population, well below the figure of 93 per cent for other regions.

Figure O.1
Within-country inequality, 1970-2010
(Gini of net disposable income, global average, population-weighted)



Source: UN/DESA, based on the Standardized World Income Inequality Database (SWIID) Version 4.1. Available from http://myweb.uiowa.edu/fsolt/swiid/swiid.edu.

Note: The figure depicts the Gini of the distribution of net disposable incomes, i.e., after direct taxes and transfers have been taken into account. The 1970 start date has been chosen to ensure that there is a large number of countries with survey-based inequality data and that interpolated data do not change the overall picture. Data cover 166 countries, representing 97 per cent of the world's population.

Between-country inequality has started to decline

Beginning from an already high level, between-country inequality continued to increase between 1950 and 2000, especially since the 1980s. In other words, the acceleration of income per capita growth in many developing countries between 1980 and 2000 came about at the cost of diverging average income levels between countries. However, a turning point after 2000 may be observed as divergence between national average incomes stopped and even reversed. This phenomenon was influenced by the recent slowdown of average per capita income growth in developed economies and the continued rapid growth in several developing and

transition economies during the period 2001-2012. The short-term growth outlook for 2014-2015 also indicates continued convergence of average incomes, with forecasted gross domestic product (GDP) growth in the European Union (EU), Japan and the United States of America ranging between 1.2 and 3.2 per cent per annum, and anticipated growth for Brazil, the Russian Federation, India, China and South Africa (BRICS) ranging between 2.9 and 7.3 per cent per annum).[9] While some countries have converged to the highest income levels of developed countries, others have continued to diverge, but there has been an overall tendency for between-country inequality to decline.

Still, global inequality remains very high

Global inequality, which combines between- and within-country inequality, has remained very high. The methodology developed by Milanovic (2005) to aggregate across surveys remains the most accurate for assessing global inequality based on household income surveys.[10] Comparing the first estimate (for 1988) with the most recent (for 2008) reveals a slight upward trend in global inequality.[11] However, during this period, inequality did not follow a uniform pattern: there was a slight decrease both between 1993 and 1998 and after the peak of 2002. A record in global inequality was reached in 2002, with a Gini coefficient above 70 percentage points. Since that year, global inequality remained at a very high plateau and has changed very little, if at all.

In fact, most of global income inequality can be explained by the between-country inequality component: that component represented two thirds of global inequality in 2000. However, as mentioned above, within-country inequality has been on the rise over the last two decades in many developed and developing countries. It is this component upon which public policy actions by national Governments and other stakeholders have an impact and hence it is an important starting point for tackling and reducing inequality.

Any analysis of inequality needs to take into account the institutional context and the specific historical, economic, social and ecological space in which it is embedded. What may affect or reduce inequality in one particular country context may not have the same impact in another, reflecting its specific context. A perception survey of 363 senior policymakers in 15 countries across five regions found that the majority of them now recognize that inequality is "not likely to be compatible with long-term development goals".[12] The *Survey* builds from country experiences to illustrate the range of employment, social protection and fiscal policies that Governments have implemented to reduce inequality. As a contribution to the debate, the *Survey* presents a comprehensive review of the literature and an analytical framework for examining the relationship between inequality and the environment.

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[9] *World Economic Situation and Prospects 2014* (United Nations publication, Sales No. E.14.II.C.2), table I.1, entitled "Growth of world output, 2007-2015".

[10] Branko Milanovic (*Worlds Apart: Measuring International and Global Inequality* (Princeton, New Jersey, Princeton University Press, 2005)).

[11] The Gini coefficient of global income inequality increased from 68.2 in 1988 to 69.6 in 2008.

[12] United Nations Development Programme, *Humanity Divided*.

Inequality and environmental sustainability

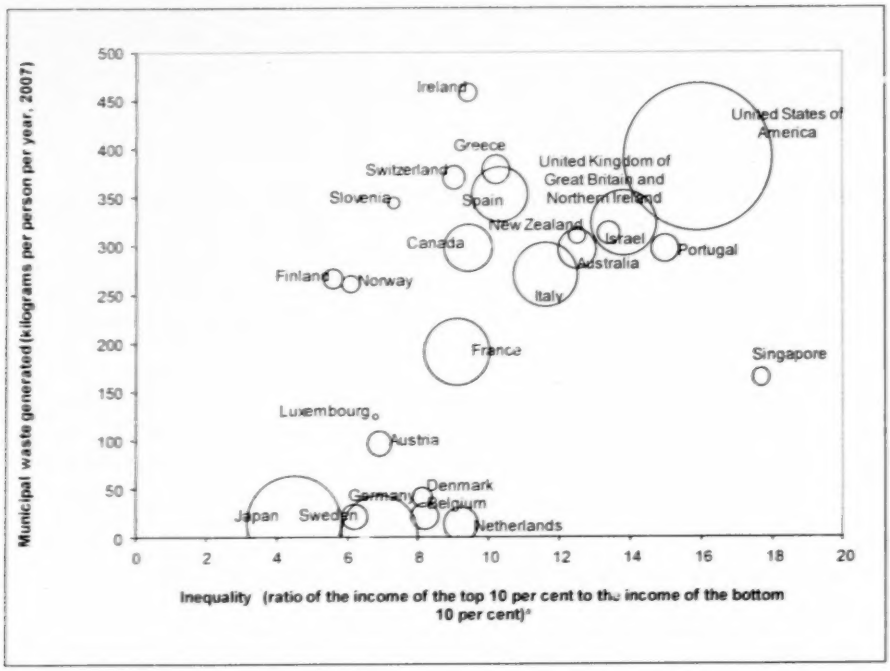
The literature has focused so far mostly on the impact of inequality on the economic and social dimensions of sustainable development. By contrast, the impact of inequality on the environment has not been sufficiently investigated. This *Survey* dedicates particular attention to the links between inequality and environmental sustainability.

Evidence on the relationship between inequality and environment

There is evidence in the specialized literature of a negative relationship between inequality and the environment. Some researchers have formalized this link using cross-country data to show a positive association between inequality and the loss of biodiversity. Other studies have shown that, even among countries with similar levels of per capita income, the ones with higher inequality tend to exhibit higher per capita consumption of resources and a higher volume of waste generated.[13] For example, per capita consumption of water increases from 3.2 cubic metres in Japan, where the income of the top 10 per cent of the population is 4.5 times greater than that of the bottom 10 per cent, to 6.8 cubic metres in the United States of America, where the ratio is 16. Similarly, in Sweden, where the inequality ratio is 6, per capita annual waste generated is 20.5 kilograms, while it increases to 370.6 kilograms in Switzerland, where the inequality ratio is 9 (figure O.2).

[13] See Danny Dorling, "Is more equal more green? exploring inequality and sustainability at GCSE and A level" (Sheffield, United Kingdom, Geographical Association, 2010); Danny Dorling, "Opinion: social inequality and environmental justice — an unequal society is a more unjust society", *Environmental Scientist*, vol. 19, No. 3 (December 2010), pp. 9-13; and Danny Dorling, Anna Barford and Ben Wheeler, "Health impacts of an environmental disaster: a polemic", *Environmental Research Letters*, vol. 2, No. 4 (October-December 2007).

Figure O.2
Inequality and municipal waste generated across countries, 2007



Source: Danny Dorling, "Is more equal more green? exploring inequality and sustainability at GCSE and A level" (Sheffield, United Kingdom, Geographical Association 2010). Available from http://www.geography.org.uk/resources/ismoreequalmoregreen/.

Note: Circle size corresponds to the size of a country's population.

[a] As reported in United Nations Development Programme, *Human Development Report 2009: Overcoming Barriers — Human Mobility and Development* (Basingstoke, United Kingdom, Palgrave Macmillan, 2009), statistical annex, table M.

This example and other evidence show that inequality clearly has an additional impact on the environment, the consumption of resources, and the volume of waste generated that goes beyond the difference in per capita income.

Four channels of inequality's influence on the environment

Qualitative analysis shows that the influence of inequality on environment runs along four channels: individual, community, national and international. These channels are not independent from each other: they often overlap and their overall impact depends on the sum total of their interactions. Also, there is a feedback effect running from environment to inequality. For example, depletion of forests and open-capture fish stocks may decrease the resource base of the poor, reducing their real income and thus aggravating inequality. Therefore, a vicious circle may arise, with inequality causing ecological damage, which then exacerbates inequality.

The individual channel

The influence of inequality along the individual channel works through consumption and production (investment) behaviour. Evidence indicates that within a country, people belonging to higher income brackets consume more resources and generate more waste than people belonging to lower income groups. Differences in ecological footprint across income categories are also evident in developing countries, where the consumption of higher income groups tends to emulate consumption patterns with a high content of non-biodegradable materials which are damaging to the environment.

The fact that people living in poverty must often make unsustainable use of natural resources to meet basic needs (such as felling trees for fuel, etc.) suggests that redistribution of income in favour of the poor may have an additional beneficial impact on the environment. The actual impact of redistributive policies on the environment will depend on the concrete nature of the relationship among ecological footprint, income level and the size and specifics of the redistribution measure proposed. Furthermore, the issue has to be seen in a dynamic context and in the comprehensive framework of the influences working through other channels.

The community channel

The role of inequality reduction along the community channel lies in facilitating the mobilization of the collective efforts necessary for protecting the environmental resources owned or controlled by the community, often referred to as common-property resources (CPRs). Hardin (1968) coined the expression "tragedy of the commons" to suggest that a common-property resource is quickly exhausted, because each individual extracts as much as possible of such a resource, disregarding the fact that emulation of his or her behaviour by others will lead to resource's exhaustion.[14] Some researchers initially saw the solution of this problem in privatization of common-property resources. However, Nobel laureate Elinor Ostrom and other economists showed that communities can protect environmental resources under their control provided that they mobilize the necessary collective efforts.[15] One of the factors that facilitate such efforts is equality among the members of the community. They found that more-equal communities are better able to protect the environmental resources under their control. Thus, equality can facilitate protection of environmental resources.

This finding has additional value in the light of climate change. Mitigation of and adaptation to climate change often require collective efforts on the part of communities. Even orderly migration requires coordinated and planned collective effort. Thus, reduction of inequality within communities can be helpful in enabling survival in the face of climate change.

The national channel

While efforts at individual and community levels are important for environmental sustainability, it is efforts at the national level that are more

[14] See Garrett Hardin, "The tragedy of the commons", *Science*, vol. 162, No. 3859 (13 December), pp. 1243-1248. doi: 10.1126/science.162.3859.1243.

[15] Elinor Ostrom and others, "Revisiting the commons: local lessons, global challenges", *Science*, vol. 284, No. 5412 (9 April 1999), pp. 278-282.

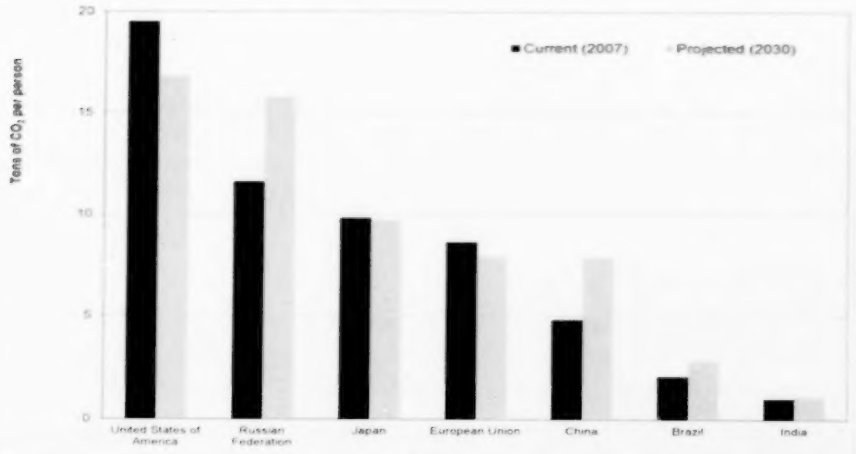
important. On the one hand, policies at the national level can influence what happens at the individual and community levels. On the other hand, national policies also determine what happens globally, because it is the national Governments that combine to determine international policies and bear the responsibility of implementing them in their respective countries.

Sustainable development requires sustainable consumption patterns. One of the important ways in which reduction of inequality may help is through national policies directed towards promotion of sustainable consumption at all levels of society. A society with more equal distribution of income and assets may find it easier to adopt policies that are more friendly to the environment. Reduced inequality can influence the consumption and production behaviour of individuals at different income levels along a path towards sustainability.

The international channel

At the international level, the disparate economic and political interests of nations make it difficult for the international community to take the measures necessary for the protection of the global commons, including the atmosphere and the oceans. The *Survey* notes one way in which the world is changing: some public goods are becoming common-property resources. In other words, globally shared resources such as the atmosphere and the oceans, once believed to be limitless, are becoming more polluted, congested and degraded, in a context where use by one limits the potential use by others. The atmosphere, which used to be a classic example of a public good whose use by one person or country did not limit use by others, bears prominent witness to this change. However, safe carbon content limits may have been reached, if not already breached, and carbon emissions of one country leave less space for the generation of allowable carbon emissions by others that do not surpass the safe limits (see figure O.3).

Figure O.3
Greenhouse gas emissions, various countries and the European Union, current (2007) and projected (2030)



Source: World Resources Institute. Available from www.wri.org.

Similar situations arise in connection with the oceans, another classic example of a global public good. Industrial fishing has led to depletion of fish stock in many parts of the oceans, so that fishing by one nation now leaves less for other nations. Rising atmospheric carbon concentrations are an important reason why the temperature of the oceans is increasing, and glaciers are retreating, leading to the expansion of the volume of water, the rise in the sea level, and the submergence of low-lying islands and countries.

Global inequality and climate change

The Intergovernmental Panel on Climate Change (2014) highlights the serious risks arising from climate change, including coastal and inland flooding; breakdown of infrastructure networks; threats to food systems and food security; loss of rural livelihoods and income; and loss of ecosystems and biodiversity.[16] These risks will increase according to the degree of global warming experienced; and they disproportionately affect least developed countries and vulnerable communities, who have the least capacity to cope with their consequences, implying an increase in inequality.

The two-way relationship between inequality and climate change aggravates both: inequality contributes to climate change, whose impacts in turn tend to increase inequality, as the poorest people and countries bear the greatest impacts. It is thus imperative — from the perspective of development and inequality, as well as environmental sustainability — to secure a binding global agreement designed to limit global carbon emissions to a sustainable level, while ensuring that development is not impeded.

Gender inequality aggravates environmental deterioration

Income and wealth inequalities are not the only dimensions of inequality that affect environmental outcomes. In particular, gender equality plays an important role in protecting the environment. Drawing upon the common-property resources literature, the *Survey* notes that a greater presence of women in community decision-making bodies leads to better protection of common-property resources. The studies of community forests provide strong evidence in this regard.[17]

More generally, gender inequality is often a manifestation of an unequal power situation rooted in unequal distribution of income and wealth, in addition to tradition and norms. Thus, there may be synergy among efforts towards reduction of income inequality and gender inequality. This synergy may be used for promoting the goal of environmental sustainability through different channels. The *Survey* therefore argues for the reduction of gender inequality as an important step towards achieving environmental sustainability.

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[16] Intergovernmental Panel on Climate Change, "Climate change 2014: impacts, adaptation, and vulnerability".

[17] See, for instance, Bina Agarwal, "Gender inequality, cooperation, and environmental sustainability", in *Inequality, Cooperation, and Environmental Sustainability*, Jean-Marie Baland, Pranab Bardhan and Samuel Bowles, eds. (Oxford, Oxford University Press, 2007), pp. 274-313; and Bina Agarwal, *Gender and Green Governance* (Oxford, Oxford University Press, 2010).

Going forward

There is a growing body of empirical evidence and sound theoretical arguments suggesting that reduction of inequality is helpful in promoting environmental sustainability. The question is whether and how reduction of inequality can be achieved. The main locus of action in this regard is the national level of individual countries. Reducing inequality across nations, however, is a more challenging endeavour. The international community is faced with the task of designing the institutions that can deal with global environmental sustainability. Narrowing inequality between countries would help to bring about a more equal distribution of economic power among nations of the world, which would present an opportunity to make sustainable use of the global commons. Collective efforts at the international level to meet global environmental challenges have to be seen in the context of the enlightened self-interest of all nations.

The next section discusses the national policy challenge of improving the conditions of employment and the recent country experiences that have proved effective in reducing inequality.

Employment and reducing inequality

Employment creation has faltered during the past two decades.[18] At the same time, the quality of employment has deteriorated. In many developing countries and, more recently, in developed countries, employment growth has been increasingly in occupations characterized by non-formal contracts, low earnings and, often, unsafe conditions of work. Countries with active labour-market programmes and strong labour-market institutions, including minimum wage laws, unemployment insurance and other mandatory benefits and collective bargaining, tend to have a lower share of low-wage work, according to studies covering Organization for Economic Cooperation and Development (OECD) member countries.[19] Recent evidence indicates that such policies and institutions may also have a positive impact on the quantity and quality of employment in developing and emerging economies.

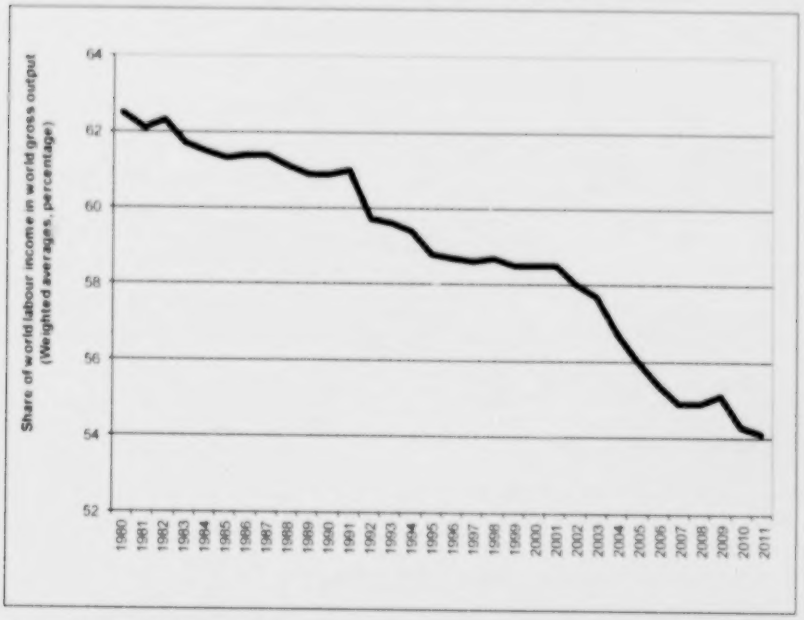
Falling wage shares and higher inequalities

In many developing and developed countries, there has been a sharp fall of wage shares in total income over the past three decades (figure O.4).

[18] See World Bank, *World Development Report 2013: Jobs* (Washington, D.C., 2012).

[19] See Jérôme Gautié and John Schmitt, eds., *Low-Wage Work in the Wealthy World* (New York, Russell Sage Foundation, 2010).

Figure O.4
Share of world labour income in world gross output, 1980-2011



Source: United Nations Conference on Trade and Development, *Trade and Development Report 2013: Adjusting to the Changing Dynamics of the World Economy* (United Nations publication, Sales No. E.13.II.D.3), chart 1.4.

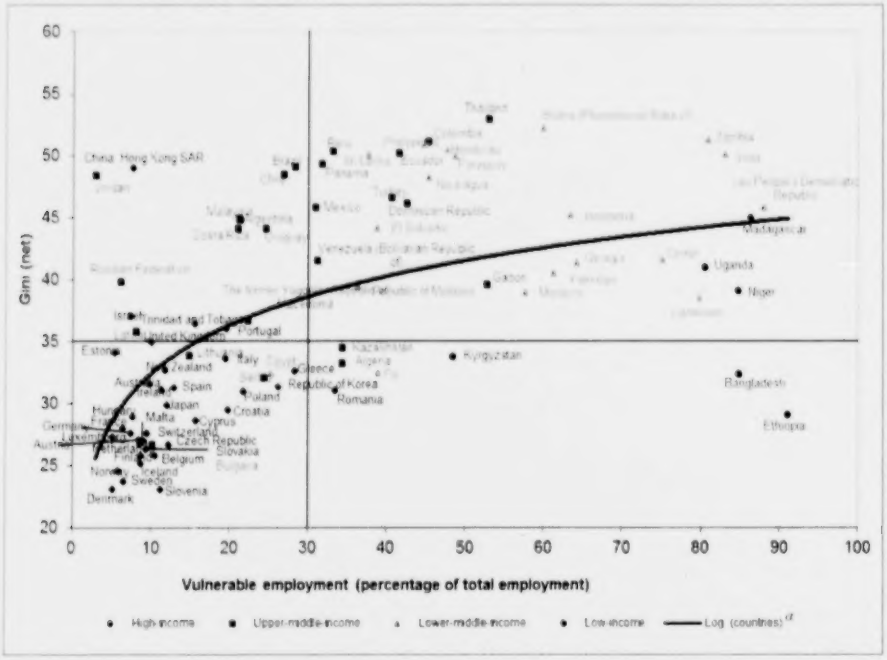
In 1980, the total earnings for labour, including so-called mixed income which captures income from self-employment and own-account work, amounted to about 62 per cent of world gross output; but by 2011, the figure had declined to 54 per cent. This decline of labour earnings at a global level is per definition mirrored in a concomitant increase of the earnings of capital income as a share of world gross domestic product (GDP). With the major share of capital incomes accruing to the top 10 per cent of income earners, this shift of earnings away from labour and towards capital incomes has been contributing to increased income inequality across households and individuals.

Vulnerable employment and inequality

Vulnerable employment, that us, jobs with limited or no access to social security of secure income, is a key factor in explaining large income disparities in the distribution of labour income and a contributing factor to income inequality in general. In 2013, vulnerable employment as a share of total employment was 48 per cent.[20] Vulnerable employment remains a major component of employment in developing countries. Figure O.5 depicts the association between vulnerable employment and income inequality.

[20] See International Labour Organization, *Global Employment Trends 2014: Risk of a Jobless Recovery?* (Geneva, International Labour Office, 2014).

Figure O.5
Income inequality and vulnerable employment, 87 countries and areas, 2005



Source: UN/DESA, based on data provided by the Standardized World Income Inequality Database (SWIID) Version 4.1 (2013); and International Labour Organization, *Key Indicators of the Labour Market*, 7th ed. (Geneva, International Labour Office, 2011).

Note: The horizontal line of Gini (net) at 35 percentage points reflects median income inequality for the sample.

[a] Logarithmic trend line for all countries.

From figure O.5, it is clear that the majority of high-income countries combine low levels of vulnerable employment with low inequality (south-west quadrant). It is also apparent that a high share of vulnerable employment is often associated with high inequality. Of great interest in the figure is the high dispersion across countries: similar levels of vulnerable employment are associated with various levels of income inequality. On the other hand, the large dispersion of country situations, as illustrated in the figure, also shows the importance of national policies for reducing income inequality.

The *Survey* finds that well-designed wage-setting mechanisms and minimum wage laws; job guarantee schemes to expand the labour opportunities of vulnerable groups; and collective bargaining and unionization, as well as the introduction of social protection policies, including programmes such as non-contributory pension systems, universal health care, conditional cash transfers, food support and low-cost housing, matter in improving household income and reducing inequality. Special emphasis should also be placed on raising the productivity of workers in vulnerable employment.

The Survey finds that employment of women and measures to raise their earnings should be accompanied by measures to raise access of women to higher

education and increase investment in social services that lessen the burden of work for women (e.g., day-care centres and co-parental leave plans).

However, social policy and labour-market institutions alone will not bring about the structural transformations that are necessary to create decent work and promote inclusive and equitable economic growth. A policy environment conducive to the creation of more and better jobs requires macroeconomic policies oriented towards such goals. Complementary policies aimed at promoting industrial development and economic diversification as well as investments in infrastructure are necessary as well. There is also scope for policy coordination across countries, particularly in the areas of trade, migration and foreign direct investment.

The next section analyses the impact of redistributive policies on reducing inequality and the search for greater equity in a context of increasing inequality.

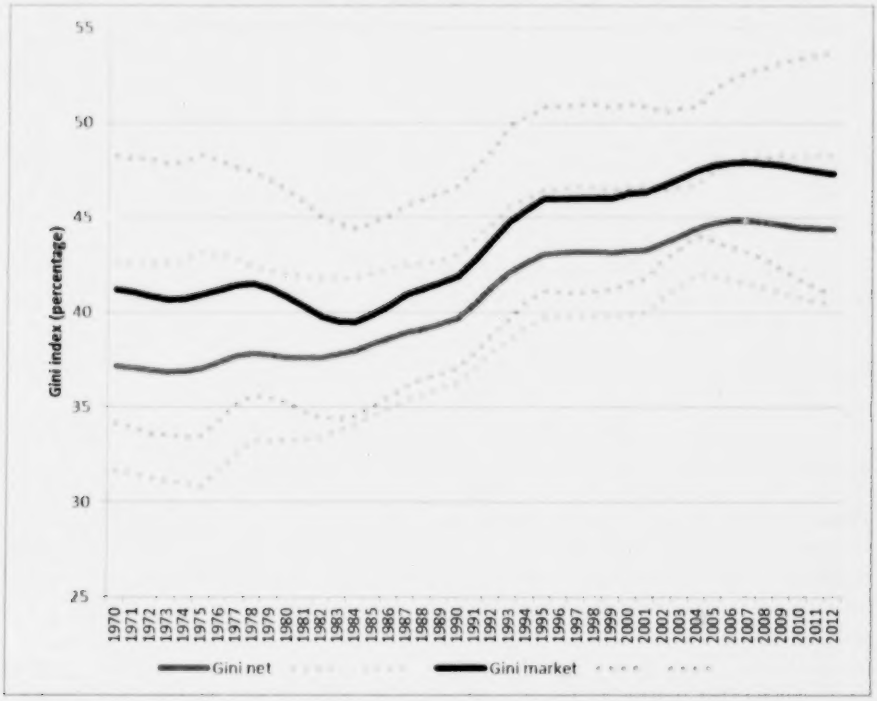
Redistributive policies

Redistributive policies represent a powerful policy instrument for shaping the distribution of income and income-generating assets, such as human capital and physical assets (including land and industrial and financial capital). Besides having a strong potential for reducing inequality, redistributive policies can also be key for promoting sustainable development, for instance, through the taxation of negative externalities arising from unsustainable production and consumption patterns, or the provision of incentives for productive investment, financial stability or environmental sustainability.

Impact of redistributive policies

One approach to assessing the impact of redistributive policies on income distribution is to compare the distribution of income before and after direct taxes and transfers (i.e., income inequality at the market and the net disposable income levels). Figure O.6 reflects the evolution of the population-weighted global averages of the Gini coefficients for domestic market and net disposable income between 1970 and 2012. Both indices remained stable during the 1970s before increasing in tandem. Over the period from the early 1980s to 2012, the average population-weighted market Gini rose by 7 percentage points, reaching 47.7 per cent in 2012, while the disposable/net Gini increased by 7 percentage points, reaching 43.3 per cent in 2012. The dotted lines represent the 95 per cent confidence intervals; these indicate that the estimated levels of income inequality remain subject to considerable uncertainty.

Figure O.6
Higher within-country income inequality at the global level, 1970-2012



Source: UN/DESA, based on the Standardized World Income Inequality Database (SWIID) Version 4.1 and data provided by the Population Division of UN/DESA.
Note: All variables are population-weighted. Data for 2010 are from 166 countries covering 97 per cent of the world population.

Inequality appears to have stabilized after 2000 in the wake of the adoption of the United Nations Millennium Declaration, which led to a reorientation/redirection of public social spending towards extreme poverty reduction, including through increased social protection.

The redistributive impact of direct taxes and transfers is significant in developed countries. Broad-based social protection measures[21] stabilize the income of most vulnerable individuals and social groups, shielding them from extreme poverty. In Western and Northern Europe, for instance, direct taxes and transfers alone reduce income inequality by about 15 Gini points, four times the magnitude of the impact at the global average level. By contrast, in developing countries, the predominantly rural and informal economic structures and weak tax administrations,

[21] Social protection encompasses direct income transfers funded through contributory (social insurance) or non-contributory (social assistance) programmes. While social insurance generally covers only individuals active in the formal employment sector, social assistance potentially covers the entire population and is fundamental for reducing extreme poverty. Social protection includes not only transfers such as pensions, work injury and invalidity benefits, sick pay, maternity leave, unemployment benefits, child and family allowances, (non-) conditional cash transfers and food or cash for work, but also subsidized goods, such as food or housing.

as well as narrow political coalitions, often prevent the development of advanced tax administration institutions,[22] thus fostering the creation of more unequal societies.

Unlike health or education, social protection is not mentioned explicitly in the Millennium Development Goals agenda, but the adoption of the social protection floor initiative by the United Nations System Chief Executives Board for Coordination (CEB) in 2009 has raised awareness about the importance of strengthening social protection in developing countries.[23] Overall, weaker public revenue mobilization has put a strain on the range of social protection programmes that can be funded, as well as on their quality and coverage. Since 2000, Latin America has experienced a progressive move towards a more rights-based approach to social spending, including social protection. This principle has shaped a number of new initiatives, such as a universal child allowance in Argentina, a universal old-age pension in the Plurinational State of Bolivia, and an old-age pension, and disability, sickness and maternity benefits in Brazil. In parallel, key instruments of social policy for poverty alleviation and redistribution, including conditional cash transfers (CCTs), have been introduced in a number of countries. Non-contributory expenditures on social assistance in general, and on CCTs in particular, appear to have been quite effective in protecting the poorest segments of society,[24] making the overall effects of redistributive policies more progressive.

In most developing countries, however, public social spending remains resource-constrained. In Central, East and West Africa, some social protection programmes are financed largely by official development assistance (ODA) and, in many cases, reflect the influence of international organizations and a shift in donor priorities from emergency and humanitarian aid towards social protection.

By focusing on raising public social spending, without proper attention to raising revenues in an equitable manner through progressive income and wealth taxation, most countries failed to equip redistributive policies with a solid backbone. As acknowledged by the Group of Twenty (G20), revenue mobilization was already insufficient in many developing countries to fund progress towards achieving the Millennium development Goals;[25] hence, significant additional efforts are likely to be required for implementing the post-2015 development agenda. Progress towards equity and sustainable development is therefore conditional on building institutions and designing policies that enable a stepping up of revenue mobilization along with progressive redistribution of income and income-generating assets. Absent such progress, development efforts will remain dependent on international development aid and/or regressive debt financing.

In the wake of trade liberalization, tax reform in developing countries may often include regressive effects, which disproportionately burden middle- and,

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[22] Mick Moore, *Increasing Tax Revenues in Low Income Countries*, ICTD Working Paper, No. 15 (Brighton, United Kingdom, International Centre for Tax and Development, December 2013). Available from http://www.ictd.ac/sites/default/files/ICTD%20WP15.pdf.

[23] Discussions of the initiative are available from http://www.ilo.org/public/english/protection/spfag/download/background/unceb2009-gfc-un.pdf; and from http://www.social-protection.org/gimi/gess/ShowTheme.do?tid=1321.

[24] Cornia, ed., *Falling Inequality in Latin America*.

[25] Group of Twenty, "Supporting the development of more effective tax systems", report to the G20 Development Working Group by the IMF, OECD, United Nations and World Bank (2011). Available from http://www.oecd.org/g20/topics/development/48993634.pdf.

sometimes, low-income cohorts, as a means of replacing falling trade tax revenue, with mixed results, especially in low-income countries. Quick fixes, such as the creation of semi-autonomous revenue agencies focusing on value added taxes, for instance, allowed revenue to be raised rapidly in some developing countries; they failed, however, to do so in a progressive manner and further locked in administrative structures that were not conducive to adequate and progressive revenue mobilization and the development of modern integrated public administrations, which are required for state-building and sustainable development.

The search for greater tax equity

Some countries have taken steps during the last decade to shape redistributive policies in support of inequality reduction and sustainable development, especially in Latin America. The new approach in that region was inspired by the search for greater tax equity and the principle of "fiscal exchange",[26] according to which Governments can raise taxes if, at the same time, they raise the quantity and quality of services provided to a broad spectrum of the population.[27]

In Latin America, value added tax rates were left mostly unchanged, but in some countries excises on luxury goods were increased. Many countries placed more emphasis on progressive income taxation. Many others placed more emphasis on progressive revenue mobilization by introducing progressive personal income taxes (e.g., Uruguay) or a minimum tax on firms (e.g., Mexico) or by lowering the income per capita at which the highest direct marginal tax rate is applied. Most Governments eliminated a long list of exemptions, deductions and tax holidays benefiting transnational corporations, which had been introduced in the 1980s and 1990s to attract foreign investments without yielding the desired effects.

Presumptive taxation was also strengthened in response to the inability of the tax administration to ascertain the assets and income of potential taxpayers, and levied on the estimate of a person's or firm's income, as calculated by tax authorities on the basis of objective indicators of gross turnover (e.g., assets, number of employees and electricity consumption). Taxation of self-employed taxpayers was also simplified. Further, several Latin American countries introduced a tax on financial transactions yielding 0.3-1.9 per cent of GDP; in 2011, Brazil, for example, raised more environmental tax revenue as a share of GDP than any other G20 country except Turkey.

Wealth remains highly concentrated at the global level, with the top 1 per cent owning 40 per cent of global wealth[28] and the 85 richest individuals having an estimated net worth equivalent to that of the poorest half of the planet. At the domestic level, wealth is concentrated similarly, with the top decile controlling 70-90 per cent of total national wealth in many countries.[29]

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[26] As reflected over the years in the policy recommendations and publications of the Economic Commission for Latin America and the Caribbean.

[27] Cornia, ed., *Falling Inequality in Latin America*.

[28] United Nations Development Programme, *Humanity Divided*.

[29] Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, Massachusetts, Harvard University Press, 2014).

In most countries, wealth taxes currently target only immobile capital, mainly through residential property taxes. However, high net wealth is accumulated mainly in financial assets, which are often concealed within opaque ownership structures maintained in tax havens and offshore financial centres (OFCs), well out of the reach of domestic tax administrations. While domestic regulators could increase wealth taxes, including on mobile capital, part of the targeted tax base will always escape their authority in the absence of an internationally coordinated and comprehensive crackdown on financial secrecy. Ongoing initiatives for the automatic exchange of information and creation of registries disclosing beneficial ownership of trusts and other legal structures are thus of fundamental importance for enabling Governments to tap the huge potential of wealth taxation to support sustainable development.

International dimensions of reducing inequality for sustainable development

Owing to globalization and the increasing importance of environmental challenges of an intrinsically global nature — most notably climate change — sustainable development must be a global process, of which national development paths, in all countries, are components.

The marked asymmetry in the degree of economic globalization — with enormous mobility of capital flows, partial mobility of high-skilled labour and much more limited mobility of unskilled labour at the global level — represents an important driving force of increasing inequality globally. This problem has been compounded by outflows of financial capital and human capital from low-income and least developed countries, where they are scarcest.

Migration, inequality and sustainability

Increasingly, countries are facilitating mobility of the highly skilled, experimenting with circular migration programmes, and promoting free movement of labour within the context of regional cooperation mechanisms. The movement of low-skilled workers remains largely unregulated, however, owing in part to the resistance emerging from the recent financial crisis, and heightened xenophobia in a growing number of countries. Trafficking of persons is rampant, and migrants are confronted with abuse and exploitation, while local workers face unfair competition in the labour market.

Related to international migration, remittances received from family members abroad are invested in education and health, improving human capital and contributing to the achievement of development goals. At the same time, the negative effects of the emigration of highly skilled workers from developing countries should be addressed through cooperation, ethical recruitment and national workforce development.

Given that migration and mobility are part and parcel of globalization, Governments should develop programmes to facilitate safe, orderly and regular migration and mobility, respect the rights of migrants, and combat discrimination, exploitation and abuse. To harness migration for development and to address its

challenges, Governments should strengthen their cooperation, develop new partnerships, and integrate migration into national development strategies and the post-2015 development agenda.

International tax cooperation

The international mobility of capital flows, along with other factors, imposes an important constraint on national redistributive mechanisms by impeding the taxation of capital income, limiting thereby both public resources and the progressivity of taxation.

Possible measures for dealing with this issue include reduced concessions to foreign investors; increased transparency in international financial transactions, including in relation to secrecy jurisdictions and mispricing in transfers; and greater global and regional cooperation in tax matters. Ongoing international policy discourse is also considering other approaches, such as unitary taxation, as well as how to ensure that existing approaches are better adapted in practice to the needs of developing countries.

It is particularly important, from the perspective of global inequality, to ensure that low-income and least developed countries benefit fully from progress in international tax cooperation. It would also be helpful to allocate additional official development assistance (ODA) to improving the administrative capacity for taxation in recipient countries, so as to ensure that aid reduces financial dependency instead of increasing it.

Global decision-making

Economic inequality and political inequality are closely interconnected, both globally and at the national level. The system of global economic governance is characterized by a number of features and structures that, in different degrees, institutionalize, facilitate or allow the dominance in decision-making of those countries with the greatest economic strength. These factors have contributed substantially to the continued failure to deal with climate change or to establish effective tax cooperation at the global level. As the Committee for Development Policy observes in the report on its sixteenth session:[30]

> Asymmetries in decision-making and in process coverage have important implications for asymmetries of outcomes. There is an international dimension to domestic or national inequalities. While inequalities within countries are mainly the domain of national Governments, there are several instances where global rules, or the lack thereof, may enhance those inequalities or constrain government action at the national level to reduce them. For instance, initiatives to promote internationally agreed minimum social standards in developing countries are supported by financial and technical resources provided by international cooperation. The development of vaccines and improved medical treatments for tropical diseases as well as for global pandemics such as HIV/AIDS has greatly assisted countries in improving the welfare of their

[30] See *Official Records of the Economic and Social Council, 2014, Supplement No. 33* (E/2014/33), chap. II, para. 20.

populations. Meanwhile, stringent patent protection increases the cost of essential medicines in developing countries, making it more difficult for them to improve the health outcomes of their populations, particularly the low-income and poor segments. Lack of international fiscal cooperation facilitates tax avoidance by transnational corporations (TNCs) and wealthy individuals and reduces the pool of resources available for Governments to implement poverty reduction and distributive policies. Unregulated capital flows contribute to increased employment and output volatility in developing countries, usually affecting the most disadvantaged sectors of society.

While there has been a partial increase in the voice of some emerging market economies since the global financial crisis, the voice of least developed and many other developing countries remains largely excluded. To tackle the interrelated challenges of global inequality and sustainable global development, it will be critically important to establish or strengthen inclusive and democratic structures, with effective representation of and accountability to all regions and country groupings on an equal basis, together with increased transparency and stronger and more equal accountability, not only to Governments but to the people they represent.

Conclusions and recommendations

Within-country inequality has been on the rise over the last three decades. Public policy actions by national Governments and other stakeholders can have an impact and hence this is an important starting point for tackling and reducing inequality. The *Survey*'s conclusions and recommendations include:

- Policy frameworks for reducing inequality would need to be designed and implemented in accordance with country-specific circumstances.
- An integrated employment framework that supports minimum living wages and wide access to high-quality social protection and social services has proved effective in reducing income inequality.
- An integrated employment framework for reducing inequality must be underpinned by macroeconomic policies that provide incentives for productive investment in employment-rich sectors and the expansion of physical and social infrastructure.
- Other pertinent policies include increased progressivity of the tax system, increased reliance on direct taxation, improved tax collection, minimum wage policies and reduction of interest rates.
- Redistributive policies can also be key for promoting sustainable development, for instance, through the taxation of negative externalities arising from unsustainable production and consumption patterns, or the provision of incentives for productive investment, financial stability, or environmental sustainability.
- A greater empowerment of women will lead to better protection of common-property resources; hence, greater gender equality in common-property resource management is both a means for and an outcome of achieving sustainable development.

- It is particularly important, from the perspective of reducing global inequality, to ensure that low-income and least developed countries benefit fully from progress in international tax cooperation, as well as other countries.
- The frequency, quality and coverage of integrated household income and expenditure surveys should be increased in developing countries to enable assessment of progress in terms of reducing inequality and other indicators of human well-being.